

## Excise Tax on Certain Classes of Public Utilities.

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## Franchise Tax on Domestic and Foreign Corporations.

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# An Argument in Support of a Bill

To repeal the increase made by the General Assembly  
in 1910 in the Excise Tax on certain classes of  
Public Utilities and in the Franchise Tax on  
Domestic and Foreign Corporations.

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By

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COLUMBUS, OHIO.

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## **Governor Harmon Requested to Veto Willis Tax Increase.**

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OFFICE OF THE OHIO STATE BOARD OF COMMERCE.

COLUMBUS, OHIO, May 19, 1910.

*Governor Judson Harmon, State House, Columbus, O.*

DEAR SIR: On behalf of the membership of the Ohio State Board of Commerce and ten thousand Ohio business corporations, I respectfully urge you to veto Sections 84 and 87 of the act to create a tax commission, define its powers and duties, and to repeal certain sections, known as H. B. No. 68, Mr. Langdon.

This request is made as a protest against the 50 per cent. increase of the capital stock excise tax upon business corporations. Such increase is contrary to a sound public policy as it tends to handicap business done in this state with an enormously greater tax than is levied upon the business done by similar corporations in the neighboring states of West Virginia, Pennsylvania and New York.

The increase is a violation of the spirit and purposes of the tax reform work that has been promoting a demand for a full assessment of all property and the limiting of the power of taxation on the 1911 duplicate to the amount of revenue raised in 1909, with the purpose of thereby reducing the local tax rates to the lowest possible minimum. Good faith in carrying out this policy requires that there shall be no increase in tax rates for state purposes.

The increase in this tax is unnecessary because, after all appropriations made by the General Assembly are

paid, the state will have a surplus at the beginning of its fiscal year, February, 1911, of about \$1,300,000. The only use of the increased revenue to be derived from this increased tax is to maintain a surplus for 1911. The General Assembly has no moral right, and it should have no constitutional right, to levy a tax for the purpose of maintaining a surplus.

To increase this Willis law tax, to take effect in July and October, 1911, as provided in Sections 84 and 87, respectively, is an exceedingly unwise and presumptuous proceeding on the part of the Seventy-eighth General Assembly. It is an attempt to legislate for the year 1911 by a General Assembly whose terms of office expires in 1910 and therefore it is an attempt to forestall the action that may be taken by the Seventy-ninth General Assembly to be elected in November, 1910, and to be convened in regular session in January, 1911.

We protested against the increase of this tax upon the business corporations of the state while this measure was pending, but the proposition to increase this tax was made too late for the General Assembly to give careful consideration to the many objections that were urged against its adoption. We are of the opinion that your refusal to approve Sections 84 and 87 of the tax commission bill will accomplish the purpose that would have been accomplished if the action of the General Assembly on this proposition had been deliberate and well considered instead of hastily taken in the closing days of its session.

Respectfully submitted,

ALLEN R. FOOTE, *President.*

## PART I.

### OBJECTIONS TO INCREASED TAXATION.

Objection is made to the increase in the Excise Tax on Public Utilities and the Franchise Tax on Domestic Corporations, voted by the 78th General Assembly, May 10, 1910, the last day of its session, in enacting the State Tax Commission Law, and for the following reasons:

*First:* Because the policy of obtaining all, or nearly all, of the revenue required for state purposes from special sources is wrong and induces wasteful and extravagant expenditures of public funds.

*Second:* Because no increase in the amount of taxation for the four quadrennial years 1911, 1912, 1913 and 1914, over the amount of taxation levied for the year 1909, plus certain stipulated per cents. of increase allowed to provide for a normal growth, is the declared policy of the people of the state and is demanded by an intelligent consideration for the public welfare.

*Third:* Because the imposition of such taxes is double taxation and makes an unjust discrimination against an important portion of the productive interests of the state.

### AN UNSOUND POLICY.

The policy of obtaining all, or nearly all, of the revenue required for state purposes from sources that do not place a direct burden on the general property of the state is morally wrong and economically unsound.



It is morally wrong because it relieves members of the General Assembly from direct responsibility to their constituents for voting increased expenditures and because relief from responsibilities induces wasteful and extravagant uses of public funds.

It is economically unsound because it removes strong inducements for the promotion of efficiency in the public service, tends to cause unthrifty increases in the public burdens and places an unnecessary handicap on productive and distributive enterprises. An unnecessary handicap on enterprise is a direct check on the prosperity of all of the people.

Growth of state expenditures; increasing difficulties encountered in the administration of the general property tax, due to a failure to devise and adopt a scientific and efficient system for administering the tax; and the desire of politicians to secure relief from direct responsibility for voting wasteful and extravagant appropriations, and to win votes by proclaiming their purpose of relieving farmers and small home owners from the burdens of state taxation by placing those burdens on the broader shoulders of corporations more able to bear them, thus rendering it possible to abolish the general property tax for state purposes, are the causes that have induced the development and adoption of this unsound public policy.

#### A CHECK UPON UNTHRIFTY STATE EXPENDITURES.

I submitted a paper to a New York State Commerce Convention, held at Utica, October 10, 11, and 12, 1899, in which I advocated a proposition to abolish



the general property tax for state purposes by securing a part of the revenue required for state purposes through levying a state tax on the total of all incomes of local governments, from whatever sources derived.

In support of this proposition I urged the consideration that such a tax would establish and emphasize a sense of direct responsibility to their constituents on the part of members of the General Assembly because the levying of the tax by act of the General Assembly, and especially any increase in the rate of the tax over a former levy would cause a state-wide criticism of all state expenditures and a call for sound reasons for any increase in the state burden.

It is obvious that under this system the amount of revenue required by the state, to be paid by each taxing district will appear as a fixed charge in the district budget over which the people can have no control excepting by exercising their influence upon their representatives in the General Assembly to keep expenditures for state purposes down to the lowest practicable amount consistent with a wise economy and true efficiency. The exercise of such an influence will be a direct benefit to every taxpayer.

The unsound policy now being pursued not only destroys the direct motive for exercising a restraining influence on state expenditures on the part of the people, it induces them to encourage large expenditures because they do not feel a direct pressure from the burden. This gives a free rein to the members of the General Assembly and causes them to seek popularity through voting liberal appropriations rather than by a

rigid adherence to the demands of an efficient economy. Under such conditions it is not surprising to find state expenditures exceeding state income, and that a demand should come for an increase in the special state taxes in a vain effort to increase state revenues as fast as the General Assembly can increase state expenditures.

That such a policy as a means of abolishing a general property tax for state purposes will end in failure, is inevitable. The day must come in every state where it is tried when no new sources for special state taxation can be found and when existing special taxes will bear no further increases. A return to a general property tax for state purposes will then be imperative unless the proposition I proposed and advocated in 1899 is adopted.

#### HISTORY.

When I proposed my plan for abolishing the general property tax for state purposes in 1899, the Legislature of New York had adopted the policy of securing all revenue needed for state purposes from special sources and by this means had succeeded in suspending the state general property tax. The New York Special Franchise Tax was enacted by the January session of the Legislature in that year. The apparent success of this policy rendered it impossible for the advocates of the proposition I then submitted, and which I now advocate, to obtain a serious hearing.

I came to Columbus, Ohio, in the fall of 1901, to undertake the management of the Ohio State Board of Commerce. The subject of taxation was one of the first and the most important to demand attention.

I found that those in control of the welfare of the state were echoing the demands of the political masters of New York and were proclaiming that the state general property tax should be abolished and the burdens of state taxation should be shifted from the farmer and the small home owner to the broader shoulders of corporations more able to bear them.

I immediately explained my plan for abolishing the state general property tax by substituting therefor a state tax on local revenues and urged its adoption.

A bill to accomplish this purpose was introduced and passed by the Senate, but was not brought to a vote in the House. (75th General Assembly, S. B. No. 191, Mr. Archer. Passed 25 yeas, 2 nays.) Although it was supported by United States Senator Marcus A. Hanna, it was opposed by the Governor and his party organization, who had committed themselves to the support of the unsound policy which I was then and am now denouncing.

Ohio started on the unfortunate experiment of attempting to derive all state revenue from special sources by the enactment in 1902 of a law assessing a new tax upon the capital stock of business corporations; by increasing the gross earnings tax on public service corporations by one hundred per cent. and extending its operation to include all public utility corporations, and by increasing and appropriating for state purposes the entire revenue derived from the taxation of insurance corporations.

## OHIO WARNED.

In opposing the enactment of these measures, I made the following statements:

1. The policy of seeking to abolish the general property tax for state purposes by means of securing all revenue needed for state purposes from special sources cannot succeed because the absence of a direct pressure of the burden of state taxation upon the people will induce the Legislature to make extravagant appropriations. Extravagance, so generated, will cause state expenditures to grow faster than state revenues can grow. This will force an increase in existing taxes and the imposition of new taxes until such a course can no longer be pursued. That the final result will be a return to the general property tax, or the adoption of the substitute therefor which I propose.

2. The policy being pursued by the State of New York will end in a failure. If the State of Ohio attempts to pursue the same policy it will also make a failure.

3. The reasons for initiating and pursuing the policy expressed in these measures are purely political and contrary to correct economic principles.

4. Special taxes levied for the promotion of political prestige are unwise and unjust, and therefore, not in accord with the requirements of a sound public policy. An unsound economic policy can not be a sound political policy.

I want the people of Ohio to know that these were my views in 1902 and that they are my views now.

## SUBSEQUENT HISTORY.

Since 1902, New York has enacted a stock transfer tax, which is a negotiation of the correct principles of economic taxation. It has increased the rates of its inheritance tax to a point which threatens to produce a financial disaster by driving the owners of large wealth out of the State.

In 1910, Ohio increased its tax on the capital stock of business corporations by *fifty per cent.*, and re-arranged its tax on the gross earnings of public utility corporations in a way to increase the tax by *twenty per cent.* on certain classes.

In 1902, the cost of the state government of New York was approximately \$22,000,000. In 1910, it was approximately \$40,000,000. The appropriations asked for 1911 are approximately \$50,000,000.

In 1902, the cost of the state government of Ohio was approximately \$6,645,000. In 1910 it was approximately \$11,498,000. The appropriations asked for 1911 are approximately \$17,740,263.

## A RETURN TO A STATE GENERAL PROPERTY TAX PREDICTED AND FEARED.

In his annual report for 1910, the Hon. Clark Williams, Comptroller of the State of New York, shows that the demands of the state departments and institutions for 1911 aggregate \$50,614,283.

The appropriations for 1910 amounted to \$42,975,450. The actual expenditures for 1909 were \$38,332,015.

In commenting on this condition of affairs, he says:

"I firmly believe a direct tax should be levied to afford adequate revenues for the maintenance of the state government.

"It is my opinion that the question of direct taxation has been largely one of political expediency and that the results of a permanent application of the principle would tend to economy through a more watchful care on the part of citizens generally of the expenditures of the money of the state. The moral effect of a direct tax might result in a saving in appropriations of as much as the amount raised by the tax levy itself."

The *New York Commercial* for January 3, 1911, says editorially:

"The whole trouble lies in the short-sighted policy of the past eighteen years in the matter of levying indirect taxes—such as the stock-transfer tax. A drastic cutting down of state expenditures is the only thing that will prevent the levying of a direct property tax."

The *Cincinnati Enquirer* for January 4, 1911, says editorially:

"The messages of Governors Harmon and Dix sound almost the same notes in the legislative and political atmosphere of the Nation.

"The Executive of Ohio dwells upon the desirability of securing full returns of personal property for taxation and insists that the rate be limited to one per cent per annum.

"The Governor of New York demands the strictest economy in expenses of the state government and regards as essential to prosperity a greater saving by the masses of the people.



"Through both messages there rings a protest against what is regarded as recent lavish expenditure, and there is a call for reform in order that individual burdens be lessened."

The *Ohio State Journal* for January 8, 1911, says editorially:

"In New York they have indirect taxation, most all the revenues being collected from business enterprises of various kinds, principally corporate and public utility interests. In his inaugural address, Governor Dix says the waste and extravagance have become so great that there is talk of resorting to direct taxation again."

INAUGURAL: GOVERNOR JOHN A. DIX.

The Hon. John A. Dix, Governor of New York, in his inaugural address as reported in the *New York Times* for January 3, 1911, says:

"During the past sixteen years those in charge of the state government have discovered and turned to account many sources of indirect taxation whereby the attention of the great mass of the people has been directed from the fact that our expenditures have been growing out of all proportion to our increase in population, resources and wealth.

"At a time when it would seem as if these forms of indirect taxation have reached their greatest possible development—nay, when, according to the report of the outgoing Comptroller, the effort to increase them has but served to decrease their efficiency by driving citizens to take up their domicile in other places—at such a time, we find that the expenditures proposed for the ensuing year exceed the estimated income by over \$13,000,000, and that we must, if we are to pay our way, resort again to the levying of direct taxes in



addition to continuing every form of indirect tax which the ingenuity of our recent predecessors has brought into existence.

"What concerns me greatly at this time is the thought that in spite of all the economy which your public servants may exercise, and in spite of the strictest application of rigorous and honest and sensible business methods to our public affairs, it may nevertheless be necessary to impose a direct tax in addition to the indirect taxes from which the great bulk of the income of the state is now derived.

"If, after such efforts on our part, it shall be necessary to impose additional taxation to meet the obligations incurred by preceding administrations, then I purpose to tell the people of the state fully and frankly the detailed facts which require such outlay and to place the responsibility upon the shoulders of those properly responsible therefor."

EXCESSIVE TAXATION BREEDS EXTRAVAGANCE, WASTE  
AND CRIMINAL CORRUPTION: JOHN A. DIX.

Governor John A. Dix, in his first message to the Legislature of New York, as reported in the *New York Times* for January 5, 1911, says:

"It is a matter of very grave concern to the citizens of the state that our income—great as it has come to be through many avenues of indirect taxation—is not within many millions of supplying the apparent needs of the state for the coming year, and you can, in my opinion, direct your attention to no other subject comparable in importance with the problem of making the income of the state equal the expenditures which are apparently necessary for the next fiscal year.

"It will be noticed that although annual expenditures increased during the years 1906 and 1907 at the

rate of \$2,630,124.52 per year, nevertheless, annual revenues increased at the rate of \$4,872,569.50 per year, making the total excess of revenues from taxation in excess of expenditures for these two years, 1906 and 1907, \$9,047,474.39. This amount unquestionably represents excessive taxation, and was naturally followed by greatly increased annual expenditures.

*"Excessive taxation is next door to criminality, for it inevitably breeds extravagance, waste and criminal corruption."*

THE STATE, LIKE TAXPAYERS, MUST ECONOMIZE:

JUDSON HARMON.

In his message to the General Assembly of Ohio, January 2, 1911, Governor Judson Harmon says:

"By the estimates of the Auditor of State, the funds available for all purposes for the fiscal year 1911, including the balance in the treasury November 15, 1910, of \$3,638,842, will be \$15,099,042. The disbursements, for all purposes, will be \$17,740,263, if the amounts asked for by the various departments and institutions be allowed. This, of course is never done, but especial care should now be taken to reduce all appropriations to the lowest amounts that can be made to suffice, in view of the great excess of expenditure over income as estimated.

"In other words, the state, like the taxpayers, must economize and the only way to do this is to go without some things, at least for the present, which we should like to have."

## A RETURN TO A STATE GENERAL PROPERTY TAX AFTER NINETEEN YEARS.

The state of Connecticut was one of the first, if not the first, state to abolish a state general property tax by means of raising all state revenues from the taxation of special sources, which it did in 1890. The inevitable failure of this system came to Connecticut last year. Mr. William H. Corbin, State Tax Commissioner, in his official report covering the biennial period of 1909 and 1910, says:

“The imposition of the state tax on the towns’ list for 1908 and 1909, as corrected by the Board of Equalization, has restored a form of tax which has not been in operation in this state for nineteen years, and transcends the theory that the state and local revenues should be derived from separate sources. On the other hand, it has apparently brought home to the taxpayers of the towns, and to the legislators, the evident fact that all expenditures of the state should be carefully watched, and that the taxpayers themselves are individually liable for their portion.”

## THE CREATION OF A NEW SYSTEM OF TAXATION AN IMPERATIVE NECESSITY.

In the light of these demonstrations of the disastrous results that have followed the attempt to abolish the general property tax for state purposes in the states of New York, Connecticut and Ohio by means of substituting special taxes therefor; and after the twelve years of study and observation that have passed since the State Commerce Convention held in Utica, October 10, 11 and 12, 1899, I renew the proposition I then

made and urge the people of Ohio to now enter upon the creation of a new system of taxation for state and local purposes that will ring true to every requirement of efficient administration, sound economic development and that will satisfactorily respond to all demands for justice between taxpayers. This is an imperative necessity if the taxation policy of Ohio is to be instrumental in developing a high degree of prosperity for its people.

William H. Corbin, State Tax Commissioner for the State of Connecticut, writes, under date of February 3, 1911:

"I enclose herewith a copy of a bill which was introduced in the Legislature yesterday,—‘concerning the apportionment of state and county taxes to the towns on the basis of revenue collected.’ Nearly everybody with whom I have been speaking in relation to this change in assessing a general state and county tax believe it will be preferable to the method now in use, by which general state and county taxes are inequitably imposed on the grand lists as corrected by the State Board of Equalization."

## PART II.

### NO INCREASE IN TAXATION FOR 1911 OVER 1909.

The demand for full valuations and reduced tax rates, which has resulted from work done by the Ohio State Board of Commerce in 1908 and 1909, has met with strenuous objections in every part of the state from those who declared that a full valued tax duplicate will inevitably lead to heavier tax burdens because it will be easier to increase the amount of money to be raised with a full valued duplicate and a decreased tax rate than it will with the present under valued duplicate and excessively high tax rate. Those objectors claimed that the tax rate will not be decreased in proportion with the increase in the tax duplicate and that the taxpayer as a result will be a loser.

In meeting this objection I publicly stated on several occasions that unless an effective way can be found to limit the power of taxation; unless it can be made certain that no more money will be raised in the full valued duplicate of 1911 than was raised in the under-valued duplicate of 1909, the people of this state could not afford to and ought not to have a full valued duplicate.

I have greater reason for holding this view now than I had when I first made it, because I have knowledge of certain schemes devised by taxspending interests designed to obtain decidedly more money for their purposes on the full valued duplicate of 1911 than they would dare to ask for on the undervalued duplicate of

1909, with its accompanying high tax rate. Abundant additional evidence of the necessity of effectively safeguarding taxpayers' interests when requiring them to list all of their real and personal property for taxation at its full value, was furnished by those tax-spending interests who opposed the enactment of the tax limit law in 1910. The necessity for an effective tax spending limit is now attested by the fact that tax-spenders were successful in mutilating the tax limiting measure of 1910 to such an extent that it is now deemed necessary to attempt to enact a more effective measure during the present session of the General Assembly.

#### GOVERNOR HARMON OPPOSES INCREASED TAXATION.

In his message to the 79th General Assembly, Governor Judson Harmon says:

"The certainty of increase in the valuation of real estate, to take effect in 1911, led me to recommend at the last session measures to protect the taxpayers by forbidding larger levies on their property under the new than under the present valuation. The act of May 10, 1910, however, did not go far enough. General approval was therefore withheld, though the bill was allowed to become a law for the sake of other good features.

"I now recommend changes in that act providing that the total amount levied hereafter for all purposes in any year shall not exceed the total amount levied in 1909. The yearly percentages of increase permitted by that act I believe to be unnecessary. The people who support the government have to economize. Why should their public servants not do the same? There will be no such increases in the public needs during the



next four years, in my opinion, and, if there should be, general retrenchment in present expenditures is an ample resource to meet them, as well as greater industry in perfecting the tax duplicate."

TAX LIMITING LEGISLATION SHOULD APPLY TO THE  
STATE AS WELL AS TO LOCAL GOVERNMENTS.

Those who keep an account for "taxes paid" must enter in that account all excise and franchise taxes paid to the state as well as all ad valorem taxes paid to local governments. An increase in state taxes means a direct additional burden upon their business in the same way as an increase in local taxes would be. When the state excise and franchise taxes were imposed in 1902, it was persistently represented that those who paid these taxes would not suffer from an additional burden because the reduction in the state general property levy, thus made possible, would decrease the local levy by the amount of the decrease in the state levy, but no measure was enacted to safeguard this promise. As a result, although the state levy was decreased from 2.85 mills to 1.35 mills, there was no corresponding decrease in the local levy and the total of "taxes paid," by those required to pay these special taxes to the state, now shows an increased burden to the full amount of these special taxes.

A fact cannot be changed by an argument. If "taxes paid" in 1911 exceed "taxes paid" in 1909, and the cause of the increase is found in an increase in a levy made by act of the General Assembly, that act will be as glaring a disregard of the popular demand that



there shall be "no increase in taxes for 1911 over 1909" as would be the act of a board of county commissioners or of a city council making an increase in a local levy that would cause a local tax for 1911 to exceed a local tax for 1909.

The state is a taxing district in the same way as a school district, a township, a village, a city or a county. The General Assembly, acting for the state, as a taxing district, should be governed by the spirit as well as the letter of the laws it enacts for the government of local taxing districts. Unless the people can rely upon this being done, they can have no assurance that they will be safeguarded against an increase in taxation.

THERE IS NO FISCAL JUSTIFICATION FOR AN INCREASE  
IN SPECIAL STATE TAXES.

If all special state taxes, as levied by the acts of 1902, are efficiently collected in 1911, the revenue of the state, added to its surplus, will create a fund sufficient for all purposes. This being true, there is no fiscal justification for the increase in special state tax made by the General Assembly in 1910.

That the special taxes will be more efficiently collected in 1911 than they were in 1909 and 1910 is guaranteed by the creation of a State Tax Commission, well paid and well equipped to perform this service. Every gain in revenue derived from a more effective administration of tax laws is a cause for rejoicing and a most potent factor in rendering an increase in the rates unnecessary.

Referring to the first annual report of the Tax Commission of Ohio, in his message to the 79th General Assembly, Governor Judson Harmon says:

"In spite of the disadvantages mentioned in the report, the work of the Commission has already resulted in an increase of assessed revenue for the year, from excise and other corporate sources, of more than \$500,000. Hundreds of companies have been found to have escaped entirely taxation to which they were unquestionably liable and many others to have paid much less than they should, while errors and inequalities abounded on all sides.

"While there may have been favoritism in some cases, the chief cause of these discreditable and costly conditions was the utter inability of boards made up of state officers, fully occupied with their proper duties, to give the time and attention necessary for this important work. I am more firmly convinced than ever that the cost of the Tax Commission provided with all necessary help is the most productive investment the state can make. But apart from returns in actual revenues, however great these may be, the moral effect of the assurance that fairness and justice will rule with respect to all taxpayers alike is an asset in good government whose value cannot be expressed in figures."

Increased revenues secured by means of an increase in tax rates cannot be ascribed to the efficient work of the State Tax Commission. Therefore, this \$500,000 reported by the Commission and commented upon so favorably by the Governor, is an actual increase in the revenues for 1910 over the revenues of 1909.

Since the entire gain estimated to be made by the increase in the franchise tax on domestic and foreign

corporations, voted by the General Assembly in 1910, which has not yet become effective, is but \$600,000, there remains but \$100,000 to be obtained through efficient administration to completely cover the estimated need for more revenue and render the retention of the increased levy as voted wholly unnecessary.

THE MORAL VALUE OF AN ASSURANCE THAT FAIRNESS  
AND JUSTICE WILL RULE.

Governor Harmon does not state the case any too strongly when he says:

*"The moral effect of the assurance that fairness and justice will rule with respect to all taxpayers alike is an asset in good government whose value cannot be expressed in figures."*

This appeal for the repeal of increase in the excise tax on certain classes of public utilities and the franchise tax on domestic and foreign corporations, made by the General Assembly in 1910, is inspired by a desire to establish fairness and justice as a permanent asset in good government for Ohio.

Fairness and justice cannot exist when unfairness and injustice are enacted into law.

When the General Assembly for 1910 increased the state excise tax on certain public utilities, it did not increase the tax on railroads. This fact is disclosed in the first annual report of the Tax Commission of Ohio, to which Governor Harmon makes reference in his message as quoted. Following a comparative table showing the total earnings of public utilities subject to excise taxation as fixed in 1909 by the state board

of appraisers and assessors composed of state officers, to which the Governor refers, in comparison with these earnings as fixed by the State Tax Commission for 1910, showing an increase, excluding railroads, of \$6,340,292, the following explanation is made:

“Railroad companies (steam) 1909, \$136,543,545; 1910, \$157,052,584, of which only one-fourth, or \$39,263,146, is taken as earnings from purely state business under the arrangement for the present year mentioned elsewhere.”

The explanation, as given by the Commission, of this arrangement is as follows:

“Many of the railroads were unable to report the amount of their intra-state earnings for the year next preceding the 30th day of June, 1910, for the reason that previous to that date no separation had been made in their accounts. The Commission, after several hearings, agreed to accept from such companies as were unable to report their actual intra-state earnings an estimate of such earnings for the preceding year, to be ascertained upon the mileage basis used in former years. By this adjustment the state will receive for this year proportionately as much from the companies as it has been receiving in the past, and more than it probably will in the future under the present law.”

The excise tax assessed on *all public utilities* by the act of 1902 was one per cent. on all total gross earnings. The act of 1910 changes this assessment from one per cent. to one and two-tenths per cent. on the gross earnings of all public utilities whose business is wholly within the state, and from *one* per cent. on *all* earnings to *four* per cent. on *intra-state* earnings on all inter-state railroads. Multiplying a rate by four and divid-

ing the basis on which it is assessed by four does not result in an increase in taxation; but adding two-tenths of one per cent. to the rate, without making any reduction in the basis on which it is assessed, does result in an increase in taxation. Such a change, applied to different corporations that have previously been taxed by an identical rate, destroys all assurance that "fairness and justice will rule with respect to all taxpayers alike." To undo the injustice that has been done, to "give assurance that fairness and justice will rule with respect to all taxpayers alike" to make "the moral effect of this assurance an asset in good government whose value cannot be expressed in figures," it is necessary to repeal the increase made in the state excise tax by the act of 1910, and assessed upon certain public utilities, as provided in the measure hereby proposed and advocated.

THE INCREASE IN SPECIAL STATE TAXES BY THE  
ACT OF NINETEEN TEN WAS UNNECESSARY.

Governor John A. Dix says:

"Excessive taxation is next door to criminality, for it inevitably breeds extravagance, waste and criminal corruption."

Governor Judson Harmon says:

"I now recommend changes in that act (the tax limiting law of 1910) providing that the total amount levied hereafter for all purposes in any year shall not exceed the total amount levied in 1909. *The yearly percentages of increase permitted by that act I believe to be unnecessary.* The people who support the government have to economize. Why should their public servants



not do the same? There will be no such increases in the public needs during the next four years, in my opinion, and, if there should be, *general retrenchment in present expenditures is an ample resource to meet them*, as well as greater industry in perfecting the tax duplicate."

Why are not these statements as true for the state as for local governments? The State Tax Commission has demonstrated the efficiency of industry in developing the basis of special state tax assessments, thus causing them to become "ample sources of revenue" to the Governor's satisfaction. Opportunity will soon come to the Governor to demonstrate that "retrenchment in present expenditures is an ample resource to meet increased demands." The combined efforts of the administrative commission and the Chief Executive, through increased efficiency and wise economy, cannot fail to provide the means for promptly meeting every authorized demand that will be made upon the state treasury, thus rendering the increase in the special state taxes voted in 1910 wholly unnecessary. The repeal of this increase in taxation is a public duty that cannot be performed too quickly.

#### STATE FINANCES.

No reason can be found justifying an increase in special state taxes in the present condition of state finances.

In his message to the 79th General Assembly, Governor Harmon in discussing this subject says:

"By the estimate of the Auditor of State the funds available, for all purposes, for the fiscal year 1911,

including the balance in the treasury November 15th, 1910, of \$3,638,842, will be \$15,099,042. The disbursements, for all purposes, will be \$17,740,263, if the amounts asked by the various departments and institutions be allowed. This, of course, is never done, but especial care should now be taken to reduce all appropriations to the lowest amounts that can be made to suffice, in view of the great excess of expenses over income, as estimated.

"In other words the State, like the taxpayers, must economize and the only way to do this is to go without some things, at least for the present, which we should like to have.

"While a material increase in revenue may reasonably be expected under the changes in the state tax laws made last winter, when the Tax Commission is fully equipped and in action, it is bad policy for the State, as well as the citizens, to spend money before it is at least in plain sight.

"Seeing the inordinate increase in expenses everywhere, the figures of which I gave in detail in my last general message, I am confident there can and should be a reduction all along the line, with an exception or two like the Girls' Industrial School."

According to this statement, conditions are as follows:

Available funds, estimated . . . . .	\$15,099,042.00
Total appropriations, 1909 . . . . .	12,395,242.90

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Surplus . . . . .	\$2,704,799.10
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Available funds, estimated . . . . .	\$15,099,042.00
Total appropriations, 1910 . . . . .	13,414,245.79

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Surplus . . . . .	\$1,684,796.21
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If the policy is adhered to of allowing no increase in expenditures for 1911 over the amount expended in 1909, and increased efficiency in the administration of tax laws induced by the work of the State Tax Commission can be depended upon to secure an increase in revenue only equal to the amount estimated to be derived from the increase in special state tax rates made in 1910, the increases in the special state taxes can be repealed, the state can pay all of its obligations, and still have a surplus at the end of the fiscal year 1911 of \$2,704,799.10, loaned at interest.

If the appropriations for 1911 are allowed to be as high as they were for 1910, under the conditions stated above, the surplus at the end of the fiscal year 1911 will be \$1,684,796.21.

If increased efficiency in collecting revenue combined with sound economic judgment exercised in making and approving appropriations results in a betterment equal to the estimated increase in revenue to be derived from increased taxation, the only use that can be made of the revenue resulting from increased taxation will be to add the amount to the surplus and loan it at interest for the benefit of the state.

The General Assembly has no moral, I doubt if it has any constitutional, right to increase taxation for the purpose of maintaining a loanable surplus.

WANTED: A STATE BUDGET COMMISSION.

A new tax limiting bill has been introduced in the General Assembly, H. B. No. 186, Mr. Smith, of Marion, in which, with other limitations, there is a

provision for the creation of a County Budget Commission. This bill provides that a budget shall be prepared by the taxing authorities of each school district, township, village and city in the county, and of the county, and submitted to the County Budget Commission.

The powers of this County Budget Commission are prescribed as follows:

“The Budget Commission may revise and change the annual estimates contained in such budget, and may reduce any or all the items in any such budget, but shall not increase the total of any such budget, or any item therein.”

This device takes the power of final determination as to the amount that may be expended for any purpose, or the total amount that may be expended by the taxing authorities of any school district, township, village, city or county, absolutely out of the hands of the taxing authorities of all of these local governments and vests that power in a group of county officials.

If there is need for placing such a curb upon the taxing power of local governments, there is a greater need for placing a curb upon the taxing power of the General Assembly.

Local taxing officials expend money obtained by direct taxation, a form of taxation which causes the burden to be immediately felt. The General Assembly under the policy being pursued, expends money obtained by special taxation designed to conceal from the people the burden that is thus placed upon them.

This tends to cause an absence of a sense of responsibility which is an essential safeguard against extravagance.

That extravagance has become a real menace in Ohio, as well as in many other states is shown by the facts stated by Governor Harmon in the message referred to. He says the total funds estimated to be available for the fiscal year 1911, including the surplus, will be \$15,099,042. By deducting the surplus of \$3,638,842 from this amount, the income of the state from revenue for the fiscal year is shown to be \$11,462,200. Against this amount of revenue, "the disbursements for all purposes will be \$17,740,263, if the amounts asked for by the various departments and institutions be allowed."

Surely, those asking for these disbursements are not impressed with the importance of maintaining a surplus, nor do they show any desire to comply with the popular demand that no larger amount shall be raised by taxation in 1911 than was raised in 1909. The General Assembly may well seek to protect itself against the extravagant demands being made upon it by creating a Budget Commission with full power of final determination of the amount that shall be expended by the state for each purpose and the total of state expenditures.

Relief from the growth in state expenditures should be sought in increased efficiency in the administration of tax laws and in the enforcement of thrift and economy in expenditures, not in increased taxation. Increased taxation will only tend to increase the evils from which relief is sought.

## PART III.

### DOUBLE AND UNEQUAL TAXATION.

All real and personal property owned by the corporations that are required to pay special taxes to the state is also taxed by local governments at the same rates and in the same manner as the real and personal property owned by all other taxpayers is taxed, except that corporations are taxed on a larger per cent of true value. The amount of their tax paid to the state is in addition to the amount of their tax paid locally, and is just that much more than other taxpayers are required to pay.

Ohio can never make "the moral effect of the assurance that fairness and justice will rule with respect to all taxpayers alike an asset in good government whose value cannot be expressed in figures" while this injustice is permitted to exist.

To the injustice of requiring corporations to pay taxes on a larger percentage of full value than is exacted from other taxpayers is added the injustice of double taxation. Drastic rules are applied and experts are employed to ascertain the full value of corporate property. The tax is levied on this high valuation at the same rate paid on greatly undervalued assessments by other taxpayers who pay taxes in the same taxing district and for the same purposes. This is a direct violation of the constitutional provision which requires that all property shall be taxed at its true value in money by a uniform rule.

Inequalities in valuations are the fundamental cause of all injustice between taxpayers, other than the injustice of assessing special taxes on one class of taxpayers that other taxpayers are not required to pay. The only remedy for this cause of injustice is the assessment of all property at full value, as sound economy and the state constitution require, or at the same percentage of true value as long as custom insists upon under-valuation.

I appeal to the sense of justice, inborn in the hearts of the people of Ohio, to cause them to instruct their representatives in the General Assembly to wipe out these causes of injustice and thus make fairness and justice to all taxpayers alike an asset of priceless value in the good government of their state.

#### A LESSON FROM TEXAS.

Conditions in Ohio, in taxation matters, do not differ materially from similar conditions in other States. This can be illustrated by the following quotation from a report recently made by a Committee on Tax Revision of the Texas Commercial Secretaries and Business Men's Association (1910):

"In order to determine equality in taxation there must be a standard of measure. An investment of an equal sum of money in different lines of industry and a comparison of the taxes paid on each investment is regarded by the Committee as the true test of equality.

"The tangible value of property is the market value. The intangible value is applied to railroads only, and is merely a separation of the market value between the physical or tangible value of the property



and the intangible value. All property except legal tender has intangible values and these values are included in the market value of the property. The only hardship it works on the railroads is in forcing them to render intangible property at its full value while other property is assessed at an average of 46 per cent of its true value.

"The franchise tax is a tax levied against all corporations for corporate privileges, the state granting individuals who take stock in corporate property relief from any obligation beyond the amount of the stock. It adds no value to property. *A factory, for example, owned by a private individual is worth no more after it is incorporated than it was under private ownership and the State is therefore taxing a thing of no commercial value.*

"The man who pays the tax cares very little for names. It is the amount of the tax receipt that interests him. If tax experts of the country would devote their energies to adding commercial value to property instead of discovering tax values it would make our country far more prosperous.

"For convenience in discussion, we will divide property into two classes, viz., corporate and private. In comparing these properties and the taxes paid by each class, it should be borne in mind that Texas has reached a period in its growth where it must develop through corporate investments. We cannot build railroads, open mines, build factories and large industrial enterprises necessary to our material progress without first forming a corporation.

"The corporate property, which constitutes 16 per cent of property values pays 55 per cent of the state tax, general revenue, and the private property, which constitutes 84 per cent of the property values, pays 45 per cent of the tax. These inequalities in some instances extend to the county assessment as well as state, and especially is this true of railroad property.

There is also a vast difference in the tax paid between the different classes of property and between the same classes of property in different counties. The variation in the per cent of true value of property rendered for assessment probably ranges from 25 per cent to 100 per cent. The average per cent of true value of property rendered is, as near as we can determine, 46 per cent.

"There are inequalities in both the law and the administration of the law. The inequalities in the law lie in the various enactments taxing different classes of properties; and the inequalities in administration arise from the defective application of the full rendition law.

"It will require a billion dollars of capital to manufacture the raw material shipped out of the state. This capital must be corporate and our revenue system should encourage factory investments."

#### LEGISLATION WITHOUT A KNOWLEDGE OF THE FACTS.

I know that the members of the General Assembly for 1902 who voted the special state taxes on corporations, and the members of the General Assembly for 1910 who voted to increase the rates of these taxes did not know what proportion of the total of state and local taxes paid in this State is paid by corporations. No statistics showing this fact have ever been compiled by the State. I therefore ascribe the readiness with which these taxes were voted to ignorance of the facts rather than to prejudice against corporations. I respect the members of the General Assembly of Ohio as honest minded men. I believe they will do right when rightly informed.



On this point I give a few quotations from an exceedingly able article by Edward L. Buchwalter, of Springfield, Ohio, published in the OHIO JOURNAL OF COMMERCE for January 14, 1911, under the title of "*Misstatements of Facts are Made in Governor Harmon's Message to the Legislature.*"

"The tax returns of corporations are made direct to county auditors and in detail, setting forth the various items, but for some reason the county auditors have not been required to specify in their reports to the state auditor the amounts of each item, but only give the total amount of all items by counties, and not by corporations.

"Much has been heard from various sources, reiterated in the Governor's message, about continued shrinkage in tax returns on credits, money, merchants' stock and manufacturers' stock, which shrinkage is largely due to high rate of taxation, poor tax laws and unwise methods of appraising property. Corporations are usually accused of being 'tax dodgers,' but official records do not sustain the charge. Compare the tax returns of 1909 with those of ten years previous relating to all kinds of personal property:

Corporation returns, 1909.....	\$410,620,345
Corporation returns, 1899.....	210,110,948
	<hr/>
Over 95% increase.....	\$200,509,397
 All other returns, 1909.....	 \$335,523,906
All other returns, 1899.....	304,273,797
	<hr/>
Less than 11% increase.....	\$31,250,109

"The 1909 returns show that corporations' returns of personal property were \$75,106,439 more than all other taxpayers' returns combined. Corporations do not claim that their returns for taxation represent the full cash value, but they do claim that they have been making more liberal returns than other classes of taxpayers. Furthermore, it should be remembered that while corporations pay their full share of local taxes, they also pay an excise tax that produces the greater part of the state revenue.

"During the closing days of the 1910 session of the last General Assembly, the joint committee in charge of certain pending bills inserted a provision to increase the excise tax on industrial corporations *fifty per cent*, and on the closing day, or days, this was rushed through with little or no consideration by many members. Probably *this unjust and unnecessary* action was supported by some members believing that it was necessary to provide more state revenue, supported by other members who favor spending millions of the state revenue on our state canals and public highways. But I believe that the main cause was the distorted impressions and prejudice against corporations, arising from the many false statements made from time to time about the tax returns of corporations.

"If Governor Harmon makes good his pledge to manage the affairs of the state on a more economical basis than heretofore, the former rate of excise tax will produce necessary revenue.

"The increase of fifty per cent has not yet become effective; that is, no taxes have yet been paid under this new law. Will the members of the General Assembly now in session examine tax returns and tax laws in order to obtain the facts relating to taxes paid by corporations for local as well as state purposes? If so, I believe they will see the justice in passing a bill to annul the unfair and unnecessary increase made in

the excise tax last spring. It requires moral courage to render justice to corporations these days, owing to the prevailing custom to attack corporations and prevailing belief that they make big profits and can stand extra taxation. Some corporations are successful, others are not. The sworn statements of corporations to the national government last summer in making settlement of the income tax, show that the average profit of all corporations in the United States for the year 1909, a year noted for great business prosperity, was less than six per cent on the capital stock. The average dividends, of course, were much less, as part of the profits go to permanent improvements."

# MONEYS

COUNTIES	ALL CORPORATIONS			ALL OTHER TAXPAYERS			TOTAL		
	1902	1909	Percent Gain or Loss	1902	1909	Percent Gain or Loss	1902	1909	Percent Gain or Loss
Cuyahoga.....	\$1,246,012	\$1,361,846	G 10	\$1,457,567	\$1,466,200	Gain	\$2,703,588	\$2,828,046	G 4
Franklin.....	249,056	445,222	G 78	1,098,443	1,388,636	G 26	1,347,499	1,833,858	G 36
Hamilton....	†503,333	795,519	G 57	†1,223,068	1,054,753	L 14	†1,726,401	1,850,212	G 6
Lucas.....	121,897	186,133	G 52	342,845	347,813	G 1	464,742	533,946	G 14
Mahoning....	16,045	121,398	G 656	639,906	1,684,393	G 163	655,951	1,805,791	G 175
Montgomery..	*143,389	228,667	G 59	*1,617,814	1,363,199	L 15	*1,761,203	1,591,866	L 9
Summit.....	63,867	107,236	G 68	304,180	305,065	Gain	368,042	412,301	G 12

\* These figures are for 1905. † These figures are for 1904. ‡ These figures are for 1908.

G Gain.

L Loss.

# CREDITS

COUNTIES	ALL CORPORATIONS			ALL OTHER TAXPAYERS			TOTAL	
	1902	1909	Percent Gain or Loss	1902	1909	Percent Gain or Loss	1902	1909
Cuyahoga.....	†1,750,444	\$1,888,067	G 8	†1,416,383	\$1,668,868	G 17	†3,166,827	\$3,556,935
Franklin.....	628,900	807,278	G 28	2,568,410	1,691,569	L 38	3,197,310	2,498,847
Hamilton.....	†986,802	1,389,869	G 40	†1,767,115	1,429,273	L 19	†2,753,917	2,819,142
Lucas.....	204,353	314,276	G 53	762,583	555,536	L 35	966,936	869,812
Mahoning.....	.....	256,185	.....	1,273,145	703,493	L 44	1,273,145	959,678
Montgomery..	*693,131	902,236	G 30	*3,740,129	3,558,699	L 5	*4,433,260	4,460,935
Summit.....	94,050	124,474	G 80	1,511,873	1,040,665	L 3	1,605,923	1,636,347

\* These figures are for 1905. † These figures are for 1904. ‡ These figures are for 1908.

G Gain.

L Loss.

# MERCHANTS STOCK

COUNTIES	ALL CORPORATIONS			ALL OTHER TAXPAYERS.			TOTAL		
	1902	1909	Percent Gain or Loss	1902	1909	Percent Gain or Loss	1902	1909	Percent Gain or Loss
Cuyahoga.....	‡4,787,459	\$4,740,076	Loss	‡3,133,600	\$3,423,550	G 9	‡7,921,059	\$8,163,626	G 7
Franklin.....	815,580	2,754,757	G 237	1,628,588	1,859,325	G 14	2,444,168	4,614,082	G 88
Hamilton.....	‡4,588,215	5,673,436	G 23	‡4,357,348	3,348,480	L 23	‡8,945,563	9,021,916	Gain
Lucas.....	1,187,407	1,797,365	G 42	1,606,537	1,463,539	L 8	2,793,944	3,260,904	G 17
Mahoning.....	162,788	412,163	G 214	449,295	490,131	G 8	612,083	902,294	G 32
Montgomery..	*808,954	1,022,356	G 26	*1,574,834	1,468,506	L 6	*2,383,788	2,490,862	G 4
Summit.....	244,907	452,501	G 84	801,076	623,875	L 22	1,045,983	1,076,376	G 2

\* These figures are for 1905. † These figures are for 1904. ‡ These figures are for 1908.

G Gain.

L Loss.



# MANUFACTURERS STOCK

COUNTIES	ALL CORPORATIONS			ALL OTHER TAXPAYERS			TOTAL		
	1902	1909	Percent Gain or Loss	1902	1909	Percent Gain or Loss	1902	1909	Percent Gain or Loss
Cuyahoga.....	‡5,927,983	\$5,762,425	L 2	‡\$842,363	\$ 990,361	G 5	‡6,770,346	\$6,752,786	Loss
Franklin.....	889,747	2,354,371	G 164	480,016	395,181	L 17	1,369,763	2,649,552	G 93
Hamilton.....	‡4,838,710	6,505,672	G 34	‡1,974,130	1,488,152	L 24	‡6,812,840	7,993,830	G 15
Lucas.....	765,246	1,245,505	G 62	237,457	271,030	G 14	1,002,703	1,516,535	G 51
Mahoning....	*1,113,345	2,672,888	G 140	* 93,650	112,155	G 16	*1,206,995	2,785,043	G 130
Montgomery..	831,191	1,991,593	G 139	487,286	481,863	L 1	1,318,479	2,473,456	G 87
Summit.....	1,115,971	2,152,581	G 92	162,855	168,330	G 3	1,278,826	2,320,911	G 80

\* These figures are for 1905. ‡ These figures are for 1904. † These figures are for 1908.

G Gain.

L Loss.

## PART IV.

### A FUNDAMENTAL REASON WHY THE INCREASE IN SPECIAL STATE TAXES SHOULD BE REPEALED.

The policy of obtaining state revenue exclusively from special sources is wrong. It weakens a sense of direct responsibility to their constituents on the part of members of the General Assembly. This tends to induce extravagance and waste in state expenditures which will inevitably absorb all state revenues. Under the momentum of this tendency it is certain that the day will come when the demand for "more money" will force a search for new sources for special state taxation or an increase in existing special state tax rates, one or both.

Every special state tax successfully laid; every increase in a special state tax successfully made, places an added obstacle in the way of abandoning a wrong policy and the adoption of, or returning to, a correct policy. This fact is demonstrated by the experience of every state where the policy of obtaining all state revenues from special sources has been tried. It is demonstrated by experience in Ohio.

#### FIRST SPECIAL STATE TAX LAW.

The first special tax for state purposes was levied on the gross earnings of railroads in 1896—one-half of one per cent.

The reason given for levying this tax was, "The state needs the money, and an increase in the state general property tax must be avoided."

Although the levying of this tax was acknowledged to be a violation of the Federal law prohibiting states from taxing interstate commerce by those well informed upon that subject, the railroads affected voluntarily consented to pay the tax without protest, hoping that such payment would be accepted as the price of peace on the part of the political managers of the state's welfare, and they could thus obtain relief from further molestation. Vain hope!

#### SECOND SPECIAL STATE TAX LAW.

The second special state tax law was enacted in 1902, only six years after the first one. This law increased the tax on railroads *one hundred per cent.*, and broadened the scope of the levy to include all public utilities. At the same time a new special state tax of *one-tenth of one per cent.* was levied on the outstanding capital stock of domestic corporations and on foreign corporations in proportion to the amounts of investments held by them in this state. The income of insurance companies was also made a subject of special state taxation and withdrawn as a subject of local taxation.

The reason given for this enormous increase in the tax rate of 1896 and for the imposition of these new taxes was, in one respect, the same as that given in 1896—"the state needs the money." In one important respect, however, the reason was changed. Instead of declaring a desire to avoid increasing the state general property tax to be the moving cause for making a one-hundred per cent, increase in and broadening

the scope of the excise tax on public utilities, and for levying a new franchise tax on domestic and foreign corporations and absorbing all taxes paid by insurance corporations, the purpose to be served by this new legislation was declared to be to *abolish the state general property tax*, or to reduce it to the lowest possible amount, in order to shift the burden of state taxation from farmers and small home owners by placing it on the broader shoulders of corporations more able to bear it.

This reason was purely political. It had no basis nor justification in economic necessity. It was demoralizing and vicious in the extreme, because it was an open bribe for votes. It tended to debase the citizenship of the state because it assumed that farmers and small home owners were unwilling to pay their just share of the expenses of the state government, were so devoid of a sense of patriotic duty and justice that they would approve, by their votes, of a policy that had for its purpose a relief for them from the payment of a just obligation by placing it, unjustly, as an added burden upon a specially selected class.

This policy succeeded for the moment, not because farmers and small home owners are unpatriotic or unjust in their hearts, but because they were misled by the loudly proclaimed representations of politicians which prevented economists from being heard. No effort was made to show the people the true cause and effect of the policy advocated. The success of the effort to enact the new legislation proposed gave added momentum to the wrong policy entered upon in 1896,

tremendously increasing, by the legislation of 1902, the obstacles in the way of a return to a policy which will gain for the people of the state "the moral effect of the assurance that fairness and justice will rule with respect to all taxpayers alike as an asset in good government whose value cannot be expressed in figures."

### THIRD SPECIAL STATE TAX LAW.

The third special state tax law was enacted in 1910, only eight years after the enactment of the second one, and only fourteen years after the enactment of the first one. This law seeks to remove the defect in the excise tax law, assessing the gross earnings of railroads, including interstate and intra-state earnings, by changing the base by excluding interstate earnings and increasing the rate from one per cent. on the whole to four per cent. on intra-state earnings only.

No statistics were available to show whether or not this change would increase or decrease the amount paid by railroads. Those best informed declared it would decrease the amount of taxes to be paid by railroads. On account of this lack of statistical information, the State Tax Commission has been obliged to make an "adjustment," voluntarily offered by the railroads, to enable it to collect any tax at all from them for 1910. Referring to this fact, the State Tax Commission, in its first annual report, page 7, says:

"By this adjustment the state will receive for this year (1910) proportionately as much from these companies as it has been receiving in the past, and more than it probably will in the future under the present law."

On this occasion the old cry—"The state needs the money"—was supplemented by the added necessity of safeguarding the state from a contingent loss of revenue on account of the reduced taxation of railroads, predicted to occur as a result of the change made in the basis and rate of the excise tax they were paying and were still willing to pay.

Having been confirmed in the pursuit of a wrong policy by fourteen years of seeming success in obtaining easy money from special sources, thereby not only avoiding increasing the state general property tax, but actually succeeding in decreasing the rate of that tax by more than one-half, what could be more natural than for the General Assembly to seek to safeguard the state revenues from the predicted loss, and to secure the "more money" demanded by tax-spenders, by the apparently easy method of increasing the special tax rates. This had been done before and no catastrophe had come to the politicians responsible for it, or to the prosperity of the state. So, it was done this third time by increasing the special tax on domestic and foreign corporations *fifty per cent*; by making an increase on *certain classes* of public utilities of *twenty per cent*, and *no increase at all* on other public utilities.

The people of the state will search this legislation in vain in an effort to find disclosed in it any disposition on the part of politicians who are managing things to give "an assurance that fairness and justice will rule with respect to all taxpayers alike."



## IT IS TIME TO CALL A HALT.

It is time to call a halt on this persistency in following a wrong course. The people of the state should now say to their political managers: "Three times and out." The first thing to do in order to correct a wrong policy is to stop going in a wrong direction. This can be done most effectively by repealing the provisions of the law enacted in 1910 increasing the special state taxes, repeal only the increase, and thus allow the rates to stand as enacted in 1902.

When this has been done, if the need for "more money" is sufficiently urgent to justify an increase in taxation—I hold that it is not—the amount needed should be obtained by increasing the rate of the general property tax. It will be easy to make the rate sufficient for all purposes at the present time because the enormously increased grand duplicate of the state will make a decided cut in the present rate necessary if the purposes for which it is levied are not to be permitted to spend any more money in 1911 than they did spend in 1909.

Such action will deprive politicians of their self-made "issue" of the oppression of farmers and small home owners, but it will give farmers and small home owners opportunity to assert their patriotism and the sense of justice by joining in the demand that all property shall bear the burdens of taxation equally. It will give "assurance that fairness and justice will rule with respect to all taxpayers alike." It will strip

from the demand for the repeal of the state general property tax its false pretense and expose its real purpose, which is to secure immunity from responsibility for wasteful and extravagant state expenditures.

#### RESPONSIBILITY AN ASSET IN GOOD GOVERNMENT.

The economic value of responsible management is well demonstrated in every productive, distributive and financial undertaking. No argument is needed to prove its worth in the management of public business. The proposed bill to create a central board of control for some nineteen unrelated state institutions is inspired by a desire to secure the economic value of responsible management. No one can intelligently support that bill and at the same time refuse to support measures designed to secure the economic benefit of responsible management for the people by re-establishing the responsibility of members of the General Assembly to their constituents for *all state expenditures* by compelling them to bring the purpose and amount of such expenditures to the attention of their constituents through a direct increase in the rate of their general property tax.

Every effort to shirk this responsibility gives testimony to its value. When the demand for the repeal of the state general property tax is stripped of its subterfuge and shown in its true character as a demand to be relieved of responsibility for wasteful and extravagant expenditures, the wrong policy that was entered upon in 1896 and confirmed in 1902 will be repudiated. This will clear the way for the adoption of a safe and

sane policy of direct responsibility to the people for every increase in taxation. If state expenditures are no more than is necessary for a thrifty and economically sound management of state affairs, there will be no complaint from the people. But, if they are wasteful and extravagant, then there will be complaint. To escape this complaint is the precise purpose of those who are responsible for levying new special state taxes, and for increasing the rates of such taxes as shown.

THE PEOPLE MUST CHECK THE ARBITRARY USE OF THE  
TAXING POWER.

If no check is placed upon the arbitrary use of the taxing power no one can say how soon history will repeat itself in the matter of levying new special taxes or increasing their rates, one or both.

Checking the arbitrary use of the taxing power is the only way in which wasteful and extravagant expenditures can be checked. It is difficult for members of a General Assembly to keep state expenditures within the limits of state income when working under conditions of full direct responsibility to their constituents; but, when relieved from such responsibility, it is absolutely impossible for them to do so.

Look at the record of New York since the enactment of its state franchise tax and its utterly indefensible stock transfer tax and inheritance tax! See how state expenditures have grown in comparison with state income!

Look at the record of Ohio since the enactment of its special state taxes and the increases in their rates!

See how state expenditures have grown in comparison with state income! Relief from direct responsibility to the people, secured through obtaining revenue from special sources, is the chief cause for these discreditable and costly conditions.

Permit this arbitrary use of the taxing power to go unchecked now, and that it will grow by what it feeds upon is inevitable.

The levying of a new special tax was unchecked in 1896. This made it possible for the General Assembly to increase that tax by *one hundred per cent.* and to extend its scope, and also to levy an additional special tax in 1902. That arbitrary use of the taxing power was permitted to go unchecked. This made it possible for the General Assembly to increase the rate of one special tax\* by *fifty per cent.*—it was first proposed to make this increase one hundred per cent.—and of another by *twenty per cent.* in 1910. If this arbitrary use of the taxing power is permitted to go unchecked now, who can say how soon another General Assembly will be on the search for new sources for special taxation and be proposing another increase in existing special tax rates? If the General Assembly is permitted to increase a special tax by *one hundred per cent.* in 1902 and again to increase the same tax by *twenty per cent.* in 1910; if it is permitted to levy a new special tax in 1902 and then to propose to increase that tax by *one hundred per cent.*, and to make an actual increase in it of *fifty per cent.* in 1910, who can say when the next increase will come or place a limit on its amount? If tax rates can be increased by twenty, fifty, one

hundred per cent. at a clip "because the state needs the money" and no effective check is placed upon such an arbitrary use of the taxing power, what is there to prevent the creation of conditions, caused by wasteful and extravagant state expenditures, that will compel the state to have "more money" and then to take care of the situation by again raising the rates of these special taxes, which do not affect the tax rate levied on the general property of the state?

The people of the state should realize that permitting the increase made in these special tax rates in 1910 to stand means far more than the amount of money that may be exacted from special taxpayers by reason of such increase. It means all the possibilities of other increases in the future and the devising of other special taxes, that will hit—who knows who will be hit by them?

The only way in which this arbitrary use of the taxing power can be effectually checked is to repeal the increases in rates voted in 1910, stop pursuing a wrong policy, and when the state must have more money fix direct responsibility for voting it upon every member of the General Assembly by requiring them to secure the money needed by an increase in the state general property tax. If members of the General Assembly cannot justify an increase in the tax rate levied on the property of the people, they cannot justify appropriations that would make such an increase necessary. This is the way to check the arbitrary use of the taxing power.

AN ARBITRARY USE OF THE TAXING POWER IS THE  
CONCERN OF EVERY CITIZEN.

My purpose in this discussion has been to acquaint the people of the state with the philosophy of a sound economic taxation system. Not primarily, as many will suppose, to safeguard certain taxpayers from the payment of an increased tax exaction.

I advocate the repeal of the increase in special state tax rates voted in 1910 because that act is the product of seed sown in 1896 and in 1902, and is itself the seed of similar products which are sure to spring from it in the future. The wrong policy thus initiated and pursued is a self propagated evil. There is but one way in which it can be destroyed, and that is by preventing it from developing more seed.

The experience in taxation legislation herein reviewed contains a fundamental lesson in good citizenship which the people of the state should learn and heed.

The attack upon railroads, made by the enactment of the special state tax in 1896, did not disturb the equanimity of other public utility corporations, or of domestic and foreign corporations. They considered that attack no business of theirs as it did not hit them, and therefore they did not feel called upon to come to the rescue of the interest attacked. But, if that attack had not been successful, other public utility and domestic and foreign corporations would not have been attacked in the same way in 1902.



In 1902 the interests attacked were quieted by the sophistry of certain "compensatory measures" and fear of the unpopularity of their cause, and yielded to the increased taxation demanded from them. But, if the attack of 1896, and of 1902, had not been successful, the attack of 1910 would not have been made.

The lesson taught by this experience is—*The best way in which one interest can defend itself against an unjust political attack is to go to the defense of any interest that may be so attacked.* The failure of an unjust political attack upon one interest will as certainly prevent a similar attack upon other interests as the success of such an attack is certain to develop a similar attack upon others. This is equally as true of any and every class of citizens as it is of corporations. Any measure that cannot stand the test of "fairness and justice to all taxpayers alike" is absolutely certain to produce results in the future that will punish those who passively or actively aided its enactment because they are not sufficiently interested or are unable to look far enough ahead to see where it will hit them. This indifference and lack of foresight on the part of the people gives political wire-pullers their opportunity. So long as the people are indifferent, or can be prevented by specious arguments from seeing how a given measure may react on them, those who advocate wrong policies can succeed. The only security against such evils is the development of the spirit of good citizenship on broad comprehensive lines which will inspire every citizen to do his duty in combating wrong policies, by whomever proposed, regardless of who or

what interest may be the victim marked for immediate slaughter.

#### THE PEOPLE ARE SHAREHOLDERS.

The people own the shares of all corporations. An unjust attack upon corporations is an attack upon the people. The number of corporation shareholders in the state of Ohio is sufficient, when they act in agreement regarding any question of public policy, to control the political power of the state. If they believe the business of the corporations in which they hold shares is not honest, is a menace in any way to the general welfare, or does not pay its fair share of taxes, it is their duty to compel a correction of such evils by an exercise of their rights of ownership, as well as by an exercise of their rights of citizenship. But, if they believe the business in which they are interested is honest, is not a menace to the general welfare, and does pay its fair share of taxes, it is equally their duty to defend such corporations from unjust attacks by whomever made.

The duties of good citizenship create a solidarity of interest which cannot be disregarded with impunity by any man or set of men. If a policy is wrong, it should be opposed; if it is right, it should be supported by every patriotic and right minded citizen, regardless of the individualized special interest it may, for the moment, affect favorably or unfavorably. The duties of good citizenship are as tangible a part of good business management as are diligence, thrift and studious forethought. When men perform their duties of citizen-

ship with the same diligence and care they apply to the discharge of their business duties, when they cease to make distinctions between the binding force of public and private duties, wrong public policies will be easily corrected, correct policies will give life to all business enterprises, and every private interest will be promoted through its just share of the general prosperity.

#### THE WATCHWORD OF THE HOUR.

The first step in a wrong direction is the fatal step. If that step is not taken, no others can follow. But when that step is taken, and others follow, whenever the wrong direction is discovered the command should be instantly given—Stop!!!

The causes and the successive development of the policy of relieving members of the General Assembly from direct responsibility to the people for the amount of state expenditures, demonstrate that policy to be wrong. This policy should be stopped. The way to stop it is to insist upon a repeal of the increases in special state taxes voted in 1910. No increase in taxation for 1911 over the taxation for 1909 is the watchword of the hour.

## PART V.

79th General Assembly, }  
Regular Session, 1911. }

No. \_\_\_\_\_

Mr. \_\_\_\_\_

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### A BILL

To reduce the excise tax on certain classes of Public Utilities and the franchise tax on Domestic and Foreign Corporations and to amend Sections 5505, 5506, 5528 and 5531 of the General Code.

(\*Asterisks show matter omitted and italics new matter.)

*Be it enacted by the General Assembly of the State of Ohio:*

SECTION 1. That sections 5505, 5506, 5528 and 5531 of the General Code be amended to read as follows:

SEC. 5505. It shall be the duty of the auditor of state, in the month of October, annually, to charge for collection from each electric light, gas, natural gas, water-works, telephone, messenger or signal, union depot, heating, cooling and water transportation company, a sum in the nature of an excise tax, for the privilege of carrying on its intra-state business, to be computed on the amount so fixed and reported by the commission as the gross receipts of each company on

its intra-state business for the year then next preceding the first day of May, by taking one \* \* \* per centum of all such gross receipts.

SEC. 5506. In the month of October, the auditor of state shall charge for collection from each street, suburban and interurban railroad company, a sum in the nature of an excise tax, for the privilege of carrying on its intra-state business, to be computed on the amount so fixed and reported to him by the commission as the gross earnings of such company on its intra-state business for the year then next preceding the first day of May, by taking one \* \* \* \* per centum of all such gross earnings.

SEC. 5528. Upon the filing of the report provided in sections 5526 and 5527 of the General Code, the commission, after finding such report to be correct, shall report to the auditor of state, who shall charge and certify to the treasurer of state for collection on or before July fifteenth as herein provided, from such corporation a fee of \* \* \* *one-tenth* of one per cent., upon its subscribed or issued and outstanding capital stock, which fee shall not be less than ten dollars in any case.

SEC. 5531. Upon the filing of the report provided for in the last two preceding sections the commission, from the facts thus reported and any other facts coming to its knowledge bearing upon the question, shall determine the proportion of the authorized capital stock of the company represented by its property and business in this state, on or before September first, and shall report the same to the auditor of state, who

shall charge and certify to the treasurer of state on or before October first, for collection, as herein provided, annually, from such company, in addition to the initial fees otherwise provided for by law, for the privilege of exercising its franchises in this state one-tenth of one per cent. \* \* \* \* \* upon the proportion of the authorized capital stock of the corporation represented by property owned and used and business transacted in this state, which fee shall not be less than ten dollars in any case.

SECTION 2. That said original sections 5505, 5506, 5528 and 5531 be and the same are hereby repealed.















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